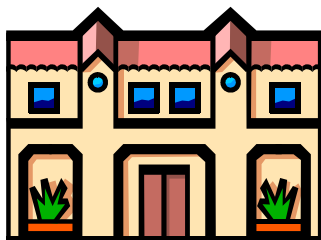


Handouts
for
Aug 2, 1 PM EST Satellite
on

**Notice 00-12, Procedures for Preparing,
Submitting & Reviewing Rent
Comparability Studies**

Preparing, Submitting and Reviewing Rent Comparability Studies



Notice H 00-12

HUD Training

hud.gov/fha/mfh/exp/rentcomp.html

1

Where We've Been

- I Doing RCSs 20 mos but still HUD & Industry often disagree ... mainly on:
 - * **comps, adjustments, RCS content**
- I OMHAR & Housing vary on comp selection.
- I Fall 99 Survey assesses problems.
 - * **more guidance needed**
- I HUD-Industry Team formed.
 - * **study survey findings**
 - * **debate & design new policies**

2

RCS Team

- I NLHA - Chaired Industry Group
 - *NLHA, AAHSA, NAHB, NAHMA,
 - *IREM, NMHC, Appraisal Institute
 - I HUD - Field Staff
 - *Kathy Pihl, Dennis Scardilli
 - *Marc Hall, David Melanson
 - *Rick Mehal, Mark Ross
 - I HUD Headquarters Staff
 - *Gordon Beckwith, Sue Donahue
- Contractor Support: The Signal Group*

3

HUD-Industry Survey Showed ...

- I Disagreement about:
 - **what units are comparable*
 - **what to do if good comps scarce*

4

What Units are Acceptable Comps?



Can these be comps?

- * unassisted unit in d4/S8?
- * LIHTC, rent controlled or other rent-restricted unit?
- * units in ALF projects?

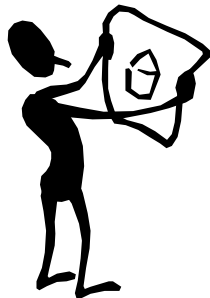


May comps be in different:

- * market area?
- * city or county?
- * property type?

5

If Strong, Local Comps Scarce?



- use fewer comps?**
- travel outside market area?**
- use rent restricted comps?**
- use less similar comps?**

6

Survey Also Showed ...

- I No consensus on RCS content.
 - *what narratives & how detailed
 - *location maps/market area defined
 - *appraiser's qualifications/ license
- I Varied approaches to HUD review.
 - *appraiser & PM roles
 - *what info HUD conveys if concerned
- I Appeal process varies by office.

7

Now Notice H 00-12

New Procedures & Rent Grid.

- * **Apply to RCSs req'd by Notice 99-36.**
 - *regardless of who is CA*
 - *both HUD & owner purchased*
 - *good for 5 yrs per Notice 99-36*
- * **OMHAR to adopt Notice's policies.**
- * **Use for studies required on AAFs.**

*Not Apply to Development Processing
for FHA insurance.*

8

The Approach

- Be comprehensive. Address all:
 - * *aspects: prepare, submit & review RCS*
 - * *players: owners, appraisers & HUD/CA*
- Give detailed guidance but recognize that RCS is an art, not a science.
- Format for easy absorption, ongoing use.
 - * *Organize by work flow*
 - * *More lists & examples*

9

Overview of Changes

- Lets some prove < market without RCS.
- Sets forth HUD's expectations re:
 - * *appraiser's qualifications, scope of work, USPAP*
 - * *selection of comps*
- Gives new Rent Comp Grid (**92273-S8**).
- Gives detailed guidance on adjustments.
- Standardizes RCS content & flow.
 - * *Stress: document, explain, convince.*
- Standardizes HUD/CA review.
- Permits owner appeals in all offices.

10

Determining Below Market Status without a RCS -- 2 Choices

- Option 2 owners may choose to compare OCAF/ budget adjusted Sec 8 rents with:
 - *75% of FMRs; or
 - *Non-Sec 8 units in that Sec 8 project
- HUD approves unless suspects > market.
- If HUD denies use of alternate, owner obtains RCS.

Use as market lid on budget adjustments.

11

FMR Alternative

Sec 8 gross rent pot'l < 75% FMR pot'l?
current & proposed

- Owner submits Attmt 3 table & cert.
- HUD questions if indication > market.
- Update & use as future market ceiling.

12

Non-Section 8 Units Alternative

- | Sec 8 & non-Sec 8 "*nearly identical*".
- | 25% of each renewal unit type occupied by tenants paying full rent due.
 - **no tenant rent subsidy, concessions, identity-of-interest*
- | Current & proposed Sec 8 rent < *average* non-Section 8 rent
- | Occupancy *not* < market for unit type.
- | Attachment 4 Request Format.

13

Preparer's Qualifications

- | State Certified General Real Estate Appraiser
licensed in Subject 's State ... temporary or permanent.
- | Active in performing RCSs or MF Appraisals.
- | Meets USPAP Competency Rule & read Notice.
- | No financial interest in Sec 8 property/ owner/ agent & not employee of owner/agent.
- | Not debarred, suspended or under LDP.
 - **Must sign and take responsibility for assistant's work.*

14

Analyzing Subject Property

- Collect/update/ verify info (**90 days** before RCS date).
- Inspect and photograph interior & exterior.
- Document characteristics, condition, appeal.
 - * interior unit size & utilities
 - * identify unit & site amenities
 - * **non-shelter service** (provide/access, fees, funding)
- Identify **primary & secondary** Unit Types.
- Assess and describe subject's **neighborhood**.
- Identify **market area**: geographic area from which applicants come -- not government boundaries.

15

Selecting Comps: the Law

- **1998 MAHRA 512 (1) (A):** comparable properties means properties in the **same market areas, where practicable**, that:
 - (A) **similar to eligible MF project** as to neighborhood, risk of crime, location, access, street appeal, age, property size, apartment mix, physical configuration, amenities, utilities, other relevant characteristics; and
 - (B) **not receiving project-based assistance**.
- **524(a)(5) of 99 Act:** HUD determines method of deriving comparable market rent.

16

Selecting Comps ... the Art

Strive for 5 Comps Meeting 6 Criteria

1. **No** tenant rental assistance (*Sec 8 & more*)
2. Same market as subject (*appraiser defines*)
3. Similar locations & neighborhood
(*crime, accessibility to services, transportation*)
4. In projects with similar structure & design
(*layout, street appeal, age, size, unit mix*)
5. Similar services & amenities
6. Not rent restricted/ rent controlled
(*LIHTC, 236, BMIR, 202/811, 515, HOME, HOPE VI*)

17

Important Points on Comp Selection

- If subject's **unassisted units** very similar to Sec 8 units, use as comps ... or explain.
- Non-restricted, non-subsidized units in project w/ other **rent restricted** units may be comps.
- Must disclose if comps & subject have **identity-of-interest** management/owner.
- Select comps w/ higher **non-shelter service** only if market adjustments for difference.

18

If can't find 5 comps w/ 6 criteria ...

- Use rent restricted units that meet conditions 1 - 5 and represent market.
- Select comps from different market area.
 - *Seek similar, nearby markets.*
- Use less similar comps in same market.
- If still not 5 comps, use 3/4 comps.

Appraiser decides pairing & ordering of strategies.

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Collecting Data on Comps

- Collect or verify info (90 days before RCS date).
- View comp's exterior (*interior if access given*).
- Take photos.
- Obtain interior rentable area.
- Obtain occupancy by project and unit type.
- Identify fees charged outside of rent.
- If comp in *different market area*, obtain market - based data to compare rents in two markets.
- Identify *non-shelter services*.
 - * *provided/ just accessed* ... fees paid

20

Reporting Data on Comps

- I **Basic Info on Comp Property Profile.**
See Sample Profile in Handouts.
- I **Details on new Rent Comp Grid.**

21

New Rent Comparability Grid

- I **Still:**
 - * **one page!**
 - * **data & adjustment columns**
- I **But:**
 - * **+ and - in one column**
 - * **modified & grouped lines**
 - * **more automated**

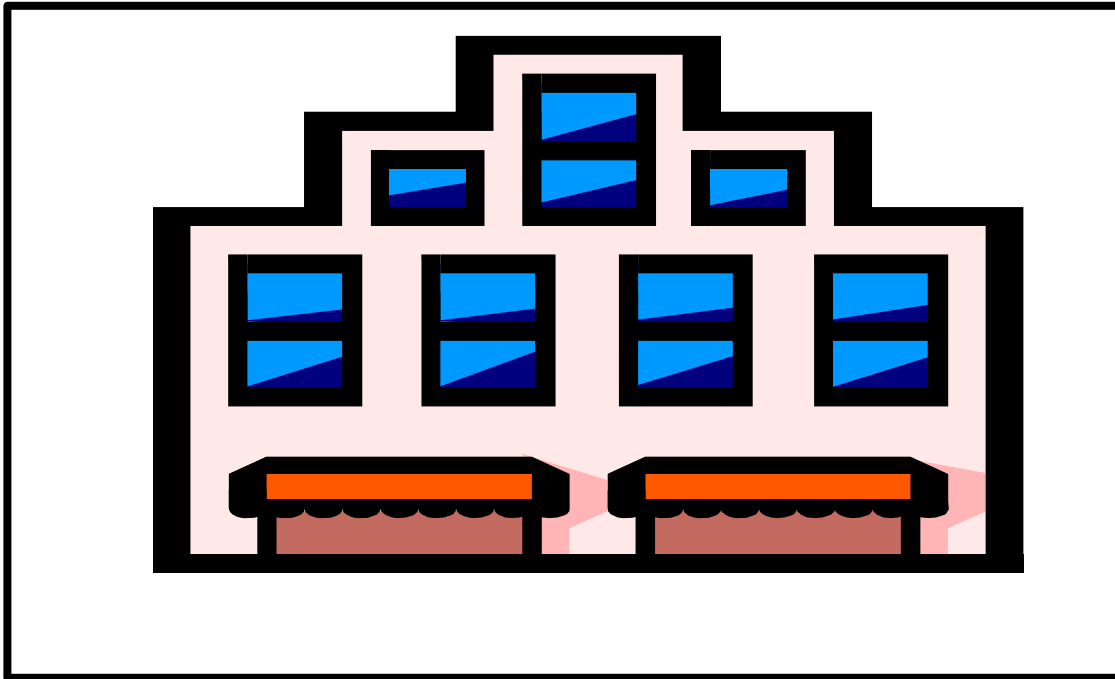
HUD 92273 - S8

22

Park View Apartments
17 Park Avenue
Lexington, ST 00456

Management Agent: 123 Management
Contact: Janet Spence
Contact Phone: (000) 555-5555

County: Gloucester
Cross Street: Main Street and Maple Avenue
Neighborhood: Residential



Unit Type	No. of Units	Used as Comp in RCS? (Y/N)	Average Rent	Interior Size (SF)	Any Rent Restrictions? (Y/N)
0 / 1	30	Y	\$525	550	N
1 / 1	30	N			

Total Units: 60

Project Occupancy: 80%

Charges in Addition to Rent: Garage parking available for \$65

Subsidies and Restrictions at Project: One-bedroom units are restricted to households earning less than 60% of median income. Rent is based on requirements of low-income housing tax-credit regulations.

Other Comments: Elderly project

Date Information Verified: 3 / 20 / 00

Rent Comparability Grid

Unit Type →

efficiency

Subject's FHA #:

12335666

Subject		Comp #1		Comp #2		Comp #3		Comp #4		Comp #5	
ABC Village Apartments		Lebanon Apts		BCD Village Apts		Holland Apts		Park View Apts		Glen Park	
100 Main Street		13 Main Street		212 South Street		117 South Street		17 Park Ave		305 37th Street	
Smithville, ST		Smithville, State		Smithville, State		Smithville, State		Lexington, State		Channel Crossing, State	
Data on Subject		Data \$ Adj		Data \$ Adj		Data \$ Adj		Data \$ Adj		Data \$ Adj	
A. Rents Charged											
1	\$ Last Rent / Restricted?	\$505	N	\$500	N	\$415	N	\$525	N	\$525	N
2	Date Last Leased (mo/yr)	Dec-99		Feb-00		Feb-00		Mar-00		Jan-00	
3	Rent Concessions							1 month free (\$44)			
4	Occupancy for Unit Type	93%		93%		66%		82%		95%	
5	Effective Rent & Rent/ sq ft	\$505	1.01	\$500	0.91	\$415	0.83	\$481	0.88	\$525	1.17
In Parts B thru E, adjust only for differences the subject's market values.											
B. Design, Location, Condition		Data \$ Adj		Data \$ Adj		Data \$ Adj		Data \$ Adj		Data \$ Adj	
6	Structure / Stories	E/5		E/3		WU/3	\$15	G/2	\$15	E/7	
7	Yr Built/Yr Renovated	1950/80		1950/80		1955/85		1978/99		1958/75	
8	Condition /Street Appeal	G		G		F	\$20	G		G	
9	Neighborhood	G		G		G		E	(\$15)	G	
10	Same Market? Miles to Subj	Y/1-2		Y/1		Y/6		Y/13		N/30	(\$35)
C. Unit Equipment/ Amenities		Data \$ Adj		Data \$ Adj		Data \$ Adj		Data \$ Adj		Data \$ Adj	
11	# Bedrooms	0		0		0		0		0	
12	# Baths	1		1		1		1		1	
13	Unit Interior Sq. Ft.	450		550		500	(\$20)	550	(\$40)	450	
14	Balcony/ Patio	Y		N	\$10	N	\$10	Y		N	\$10
15	AC: Central/ Wall	C		C		N	\$10	C		W	
16	Range/ Refrigerator	RF		RF		RF		RF		RF	
17	Microwave/ Dishwasher	N	(\$5)	D	(\$5)	D	(\$5)	D	(\$5)	N	
18	Washer/Dryer	L		N	\$10	L		WD	(\$15)	L	
19	Floor Coverings	C		V	\$5	C		C		V	\$5
20	Window Coverings	B		B		B		B		D	
21	Cable/ Satellite/Internet	C		C		C		C, S, I	(\$5)	S	
22	Special Features	N		N		N		N		N	
23											
D. Site Equipment/ Amenities		Data \$ Adj		Data \$ Adj		Data \$ Adj		Data \$ Adj		Data \$ Adj	
24	Parking (\$ Fee)	L/\$20		G/\$55	(\$5)	N	\$5	L/\$0	(\$20)	G/\$65	(\$5)
25	Extra Storage	Y		Y		Y		Y		N	\$15
26	Security	Y		Y		Y		N	\$10	N	\$10
27	Clubhouse/ Meeting Rms	MR		MR		MR		Y	\$5	MR	\$5
28	Pool/ Recreation Areas	N		N		P	(\$15)	R	(\$10)	N	
29	Business Ctr / Nbhd Netwk	N		N		N		N		N	
30	Service Coordination	N		N		N		Y		N	
31	Non-shelter Services	EC/T		EC	\$10	EC/T		N	\$20	EC/T	
32											
E. Utilities		Data \$ Adj		Data \$ Adj		Data \$ Adj		Data \$ Adj		Data \$ Adj	
33	Heat (in rent?/ type)	Y/gas		N/gas	\$25	Y/gas		Y/elec		N/gas	\$25
34	Cooling (in rent?/ type)	N/elec		N/elec		N/elec		N/elec		N/elec	
35	Cooking (in rent?/ type)	N/elec		N/elec		N/elec		N/elec		Y/elec	(\$5)
36	Hot Water (in rent?/ type)	Y/gas		N/gas	\$10	Y/gas		Y/elec		N/gas	\$10
37	Other Electric	N		N		N		N		Y	(\$20)
38	Cold Water/ Sewer	Y		Y		Y		Y		Y	
39	Trash /Recycling	Y		Y		Y		Y		Y	
F. Adjustments Recap		Pos Neg		Pos Neg		Pos Neg		Pos Neg		Pos Neg	
40	# Adjustments B to D	2	4	4	2	5	4	4	8	5	2
41	Sum Adjustments B to D	\$15	(\$45)	\$30	(\$45)	\$75	(\$60)	\$50	(\$125)	\$45	(\$55)
42	Sum Utility Adjustments	\$35						\$35			(\$25)
		Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross
43	Net/ Gross Adjmts B to E	\$5	\$95	(\$15)	\$75	\$15	\$135	(\$40)	\$210	(\$35)	\$125
G. Adjusted & Market Rents		Adj. Rent		Adj. Rent		Adj. Rent		Adj. Rent		Adj. Rent	
44	Adjusted Rent (5+ 43)	\$510		\$485		\$430		\$441		\$490	
45	Adj Rent/Last rent		101%		97%		104%		92%		93%
46	Estimated Market Rent	\$485	\$1.08	Estimated Market Rent/ Sq Ft							

Joe Jones

/ /

Appraiser's Signature

Date

Attached are
explanations of:

- a. why & how each adjustment was made
b. how market rent was derived from adjusted rents
c. how this analysis was used for a similar unit type

Grid was prepared: ☐ Manually ☒ Using HUD's Excel form

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"Rent Grid" Parts

A: Rents Charged

B: Location & Condition

C: Unit equipment & amenities

D: Site equipment & amenities

E: Utilities

F & G: Adjustment Recap & Adj. Rent

One Grid for Each Primary Unit Type.

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Adjustments Recap - Part F

	<u>Pos</u>	<u>Neg</u>
# Adjmts B to D	2	4
Sum Adjmts B to D	\$15	(\$45)
Sum Utility Adjmts	\$35	
	<u>Net</u>	<u>Gross</u>
Adjmts B to E	\$5	\$95

24

Computing Adjustments

- I Itemize in Parts A -E on Rent Grid.
 - * **A:** adjust for occupancy & concessions.
 - * **B to E:** assess how comp's rent would change if comp looked like subject
- I Attach concise, convincing explanation:
 - * **why** adjustment was made/ not made
 - * **how** \$\$ adjustment was derived
- I Use market data, not operating costs.
How much would typical applicant in subject's market pay for difference?

25

Adjusting Rents - Special Concerns.

- I Rent Restricted Units
 - * **No Adjustments** for fact that rent-restricted.
- I Comparables Outside Market Area
 - * **Adjust** for significant differences in rent levels.
- I Non-Shelter Services:
 - * **OCAF/budget projects:** value all available and provided services, regardless of funding
 - * **Marking -to -market projects:**
 - always assess value of services *available*.
 - value service *provided* only if service authorized to be paid from rental income.

26

Deriving Market Rent

What point in range of adjusted rents is rent subject could most probably obtain?

- * Consider type, size & number of adjustments ... quality of comps.
- * Explain *how* market rent derived & *why* it was derived that way.
- * Adjust market rent for *primary* unit types to conclude *secondary* unit types.

27

Preparing the Report

Include Documents & Detail per Exhibit 4-1.

Document
Explain
Convince

28

RCS Must Include ...*(Exhibit 4-1)*

- | Appraiser's Cover Letter
- | Appraiser's Scope of Work
- | Description of Subject's:
 - * *amenities, condition*
 - * *market & neighborhood*
- | Narrative on Selection of Comps
- | Locator Map -- subject & comps
- | Rent Comparability Grid / *primary* type
- | Explanation of Adjustments & Market Rent
- | Comparable Property Profiles
- | Appraiser's Certification; License *(if temp)*



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Not Required in RCS

- | Demographic Trends Data
- | Demand/ Supply Analysis
- | Appraiser's Qualifications
- | Appraiser's Permanent License
- | Engagement Letter
- | *Interior* Photos of *Comps*

30

Excerpt from Notice's Exhibit 4-1's Guidance on RCS Content

5. Description of Neighborhood. Discuss the project's location noting factors that would impact market rent level. Cover:

- property types (multifamily, single family, commercial) and rural/ suburban /urban nature of community
- access to schools, recreation, transportation, shopping, medical and employment centers, community services or other features tenants at subject would seek
- nuisance (e.g., street noise), crime rates, and other factors affecting the perceived quality of the neighborhood

6. Narrative Describing Selection of Comparables.

- Provide an overall assessment of the availability of comparables and the quality of the comparables selected and state **why** the comparables used were selected. If the unassisted units in the subject project have the same number of bedrooms and were not used as comparables, explain why. If less than five comparables were provided for any primary unit type, say so and explain why.
- Identify any comparables that are significantly dissimilar to the subject (e.g., different number of bedrooms, different structure type, different level of services). Describe what research was performed to determine that more similar comparables were not available.
- Identify any comparables that are outside the subject's market area. Describe what research was performed to determine that better comparables were not available in the subject's market area. Compare the rent levels in the alternate market area with those in the subject's market area.
- Identify any rent restricted units used as comparables. Explain the type of restriction (e.g., LIHTC, local rent control, etc.).
- Identify any comparables that are owned or managed by companies having an identity-of interest with the owner or management agent of the subject property.

USPAP

I Appraisal/ consultation?

- *HUD accepts either.. **if Sec 4 content.**
- *Both HUD & Owner are clients.

I If Notice :

- *exceeds state/USPAP, comply as **supplemental standard.**
- *conflicts with state/USPAP, invoke **jurisdictional exception** & comply with Notice.

31

Submitting the RCS to HUD

- I 120-180 days before contract expires
- I Owner submits letter stating:
 - ***RCS complete .. per Exhibit 4-1**
 - *narratives & grid **accurate on subject**
 - *any **identity-of-interest** between comps & Sec 8 principals
 - *appraiser **independent**; selection/ fee not contingent
 - *Whom HUD should **contact**



32

HUD/CA Review



- | State Certified general appraiser oversees.
- | PMs - timeliness & completeness; substance review if appraiser trains.
No RCS challenge w/out Appraiser's review.
- | Usually desk review, may do field visit.
- | Time frames:
 - * **Completeness Check**- 10 days
 - * **Substantive Review**- 30 days

33

HUD/CA asks:

- | RCS & owner certification complete?
- | Grid & narratives accurate on subject?
- | Reason to doubt comps/market facts?
- | Definition of market area reasonable?
- | Comps & adjustments reasonable?
 - * **justify alternate comp selection strategy?**
 - * **explanations convincing? market data?**
 - * **non-shelter services follow Notice?**
- | Market reasonable point in adj. rent range?

34



HUD/CA convinced

Need not agree on every detail.

35

HUD & Owner/Appraiser Interactions



- If aspects unclear/unconvincing, HUD talks /writes ... may ask for info.
- 10 days ... HUD accepts/challenges RCS.
Any challenge:
 - ★ **cites reasons**
 - ★ **suggests**: modify RCS or accept rent HUD appraiser derived *per Notice & USPAP*.
 - ★ **notes appeal rights**
- 10 days ... Owner tells HUD if will:
 - ★ **appeal or accept suggested action**

36

Owner Appeal

- | ≤ 15 days after decides to appeal, Owner sends written reasons for appeal .
 - * *May also request meeting/ conference call.*
- | **PCtr** issues decision ≤ 15 days after final info rec'd & any meeting/call held.
- | Owner has 15 days to appeal to **HUB**.
- | **HUB** decision in ≤ 15 days. Decision final.

No appeals on mark-up-to-market.

37

Implementation Schedule

- | Signed June 29th.
- | Owner/ appraiser may implement **now**.
- | Must applies to all RCSs:
 - * **owners contract for $\geq 8/4/00$**
 - * **appraiser submits to owner $\geq 9/18/00$**

HUD & OMHAR redoing SOWs used to purchase RCSs.

38

For Copies/Further Info ...

- I Excel/Word Attachments, Notice, Tables
 - * hud.gov/fha/mfh/exp/rentcomp.html
- I Help Desk & FAQs on Expiring Contracts
 - * hud.gov/fha/mfh/mfhsec8.html
- I www.hudclips.org

39

Loading REMS

- I Date 92273 Signed on **Comp Study Detail**
 - * Date of appraiser's letter to owner
- I Correlated Rent from 92273
 - * rents from table in Appraiser's letter
- I RCS required? think market rent analysis.
 - * "yes" if use Section 2 alternate to RCS
- I Record RCS Alternates Used ... in **Decision Comments** on Renewal Opt 2 Detail Screen
 - * "FMRs Used"
 - * "Non-Sec 8 Units Used"

40